

Iowa Health CEO sees salary triple in eight years

By The Des Moines Register

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DES MOINES, Iowa (AP) -- The leader of Iowa's largest health care system has nearly tripled his income in the last eight years, prompting critics to question the system's status as a nonprofit company.

Sam Wallace, the chief executive officer of Iowa Health Systems, makes \$1.3 million annually. That's 37 percent more than the median income for CEOs of large, nonprofit health systems, according to a survey published this summer in Modern Healthcare magazine.

Iowa Health board members, who approved Wallace's raises, said the increases were necessary to keep a valuable leader away from the for-profit hospitals.

K.B. Forbes, a national patient-rights activist, called Wallace's compensation "absolutely excessive and appalling."

"What happens with these CEOs is they focus on building their empires instead of focusing on what they're supposed to, which is patients," said Forbes, the executive director of Consejo de Latinos Unidos, a California-based group that campaigns against abuse by nonprofit hospitals.

Forbes said the board can't justify Wallace's salary. The point of private businesses is to make money, he said, but that should not be the point of Iowa Health, a charity that relies on taxpayer money for 55 percent of its operating revenue.

"If they want to make millions, fine," Forbes said. "But pay taxes. Pay taxes for the roads. Pay taxes for the schools."

Iowa Health Systems owns 11 hospitals and 125 clinics across the state. It employs more than 18,000 people, including 350 physicians. It admitted about 100,000 patients last year and saw about 258,000 in its emergency rooms.

The size of the company should justify the salary of its leader, said Iowa Health Vice President Jim Zahnd.

"There are no other Sam Wallaces in Iowa," he said. "We're the largest health system in the state, and he's a senior guy. He's got 20 to 30 years' experience, and that all goes into it."

In 1998, the earliest year for which federal records are available, Wallace's compensation was \$458,000. Besides his salary and bonuses this year, the system reports Wallace's benefits at \$1.1 million.

Former Gov. Terry Branstad, now the president of Des Moines University, is among the most prominent members of the board that approved Wallace's raises. He said the board examines the salaries closely each year, and he is confident that Wallace's pay is in line with what competitors are paying.

"This is a very large system, with a lot of hospitals, and a lot of responsibility," he said. "It's a difficult, demanding job, and Sam Wallace has done a great job."

According to the Des Moines Register, the newspaper first asked Iowa Health about Wallace's compensation on June 20. Later that day, the system responded by announcing that he was retiring, effective Jan. 1, 2008. He did not reply to four requests for comment about his compensation.

Wallace's raises have come at a time when nonprofit hospitals are under growing scrutiny, including for the salaries they pay their leaders. The Internal Revenue Service, prodded by Sen. Charles Grassley, R-Iowa, has been aggressive about asking whether such hospitals deserve their tax breaks.

Grassley, who oversees health-care regulation and tax policy as chairman of the Senate Finance Committee, said he would not comment on any specific executive's salary. But he said the IRS has been too willing to accept consultants' conclusions that high salaries are justified at nonprofit institutions. He also criticized the hospital boards for approving high salaries.

"I don't want them justifying that by some consultant coming in and having it be a camouflage for them not having guts enough to negotiate something -- or for them to justify some cozy arrangement that they're making with some executive," he said. "The marketplace ought to decide. And the board of trustees ought to be running the organization."

The IRS recently responded to Grassley's concerns by sending out several hundred questionnaires to hospitals asking how much their leaders are paid and how such salaries are decided.

Lois Lerner, the IRS's director of exempt organizations, said her agency must balance reasonable compensation rules with the nonprofit hospitals' need to attract qualified employees.

"You don't have to wear a hair shirt to work for a public institution," Lerner said.

The IRS can revoke a nonprofit hospital's tax-exempt status, but it rarely does. Lerner said the IRS tries to work with nonprofit companies to correct missteps. That can lead to fines and payment of back taxes, but the actions are not publicly disclosed.

Lerner said she didn't know of any cases where such status was revoked simply because of high executive salaries.

"But I won't say it could never happen," she said, "because I never say never."

Information from: The Des Moines Register, <http://www.desmoinesregister.com>